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State of Idaho

Legislative Services Office

## Individual Entity Audit Report

A communication to the Joint Finance-Appropriations Committee

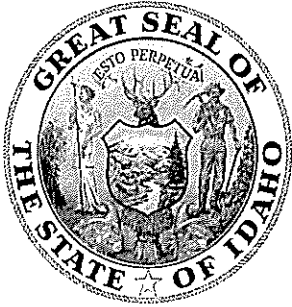
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# IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND

FY 2011

Report OP24611  
Date Issued: March 7, 2012

*Serving Idaho's Citizen Legislature*



Idaho Legislative Services Office  
Legislative Audits Division

Don H. Berg, Manager

## DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND

### SUMMARY

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#### **PURPOSE OF AUDIT REPORT**

We have audited the financial statements of the Department of Environmental Quality (DEQ), Drinking Water State Revolving Fund (DWSRF) for the fiscal year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether the DWSRF's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations.

#### **CONCLUSION**

We conclude that the DWSRF's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the DWSRF's financial statements.

#### **FINDINGS AND RECOMMENDATIONS**

There are no findings and recommendations in this report or the prior report.

#### **AGENCY RESPONSE**

The Department has reviewed the report and is in general agreement with its contents.

This report is intended solely for the information and use of the State of Idaho and the Department of Environmental Quality and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Curt Fransen, and his staff.

#### **ASSIGNED STAFF**

Patrick Aggers, CPA, CFE, Managing Auditor  
J.E. Bowden, CPA, CFE, In-Charge Auditor

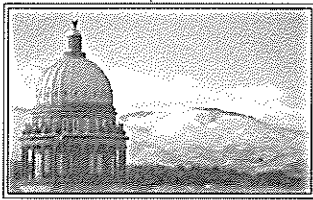
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# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

Jeff Youtz  
Director

March 7, 2012

Unqualified Opinion on  
Basic Financial Statements

## Independent Auditor's Report

Curt Fransen, Director  
Idaho Department of Environmental Quality  
1410 North Hilton Street  
Boise, ID 83706

Dear Mr. Fransen:

We have audited the accompanying financial statements of the governmental activities, major fund, and the remaining fund information of the Idaho Drinking Water State Revolving Fund (DWSRF) as of and for the year ended June 30, 2011, which collectively comprise the DWSRF's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DWSRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, major fund, and the remaining fund information as of June 30, 2011, and the respective changes in financial position and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012, on our consideration of the DWSRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

Mike Nugent, Manager  
Research & Legislation

Cathy Holland-Smith, Manager  
Budget & Policy Analysis

01 Don H. Berg, Manager  
Legislative Audits

Glenn Harris, Manager  
Information Technology

The Management Discussion and Analysis on pages 3 and 4 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", followed by a stylized flourish or checkmark.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the Idaho Drinking Water State Revolving Fund (DWSRF) annual financial report presents our evaluation of the financial performance of the program for the State fiscal year (SFY 2011) – July 1, 2010 through June 30, 2011.

## Overview of the Financial Statements

The DWSRF basic financial statements include the Enterprise Fund financial statements and accompanying notes to the financial statements. The Enterprise Fund financial statements consist of the following elements necessary for fair presentation:

- Statement of Net Assets – This statement presents information on all assets and liabilities of the DWSRF, with the difference between assets and liabilities reported as net assets.
- Statement of Revenues, Expenses and Changes in Net Assets – This statement presents all revenues, expenses, and the changes in net assets of the DWSRF. The information in this statement is segregated into operating revenues, operating expenses, and non-operating revenues.
- Statement of Cash Flows – This statement details the categorical sources and uses of cash within the DWSRF, and provides a reconciliation of income to net cash provided by operating activities.
- Notes to the Financial Statements – This section details the financial activities, accounting policies and practices, as well as specific account information for the DWSRF.

These financial statements provide additional information to the specific operations on the DWSRF than that which is presented in the State of Idaho, SFY 2011 *Comprehensive Annual Financial Report (CAFR)*. The Idaho *CAFR* includes the DWSRF, the related but separate Clean Water Revolving Loan Fund (CWSRF) which is also operated by the Idaho DEQ, and the Idaho Department of Water Resources loan program. Taken together, these three programs make up the Loan Fund as reported in the Idaho *CAFR*.

## Financial Highlights State Fiscal Year 2011

- The DWSRF made \$23.8 million in loan disbursements to Idaho communities for drinking water projects. The money used for these disbursements was from five primary sources: \$5.4 million from U.S. Environmental Protection Agency (EPA) DWSRF capitalization grants, \$1.6 million from Idaho matching funds, \$11.0 million from the EPA American Recovery and Reinvestment Act (ARRA), \$3.3 million from the U.S. Department of Education ARRA, and \$2.5 million from revolving funds (collected loan repayments and related revenues.)
- Loan repayments of \$3.9 million were received with all loans being current. Historically, the DWSRF has not experienced any loan defaults.

- Investments made by the Office of the State Treasurer earned \$0.09 million in interest on DWSRF cash deposits remaining in the Idle Pool, and \$0.5 million was earned by the Diversified Bond Fund.

#### Condensed Financial Information

	<u>FY 2011</u>	<u>FY 2010*</u>
Total Assets	\$136,920,570	\$118,322,882
Total Liabilities	<u>221,746</u>	<u>1,144,309</u>
Total Net Assets	\$136,698,824	\$117,178,573
Operating Revenue	\$2,865,459	\$2,501,208
Operating Expenses	2,545,543	2,501,208
Non-Operating Revenue	19,200,335	21,661,022
Change in Net Assets	19,520,251	21,661,022

\*FY 2010 restated

#### Analysis of Financial Position

The Idaho DWSRF continued to show growth in SFY 2011, as evidenced by the \$18.6 million increase in total assets. This growth in assets was primarily due to the consumption of the federal capitalization grants and State match. During 2011, EPA grants contributed \$16.4 million towards loan disbursements, while Idaho matching funds contributed an additional \$1.6 million, and the U.S. Department of Education ARRA contributed \$3.3 million. Also, the DWSRF earned \$2.1 million of loan interest revenue.

Loans receivable as of June 30, 2011, was \$108.0 million, an increase of \$15.2 million from the prior year. During the year, the DWSRF made loan disbursements of \$23.8 million, while collecting \$2.6 million of loan principal repayments.

Cash increased by \$1.5 million during the year to a balance of \$11.1 million on June 30, 2011.

STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY  
 DRINKING WATER STATE REVOLVING FUND  
 STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2011

	LOAN ACTIVITIES	SET-ASIDE PROGRAMS	TOTAL
<b>ASSETS</b>			
<u>Current Assets</u>			
Cash	\$11,050,499	\$0	\$11,050,499
Investments	14,657,600	0	14,657,600
Interest Receivable - Fund Balance	45,152	0	45,152
Interest Receivable - Loans	267,706	0	267,706
Loans Receivable	2,826,017	0	2,826,017
Due from Federal Government	0	221,746	221,746
Due from State	943,187	0	943,187
Total Current Assets	\$29,790,161	\$221,746	\$30,011,907
<u>Non-Current Assets</u>			
Loans Receivable	\$105,178,721	\$0	\$105,178,721
Interest Receivable - Loans	1,410,026	0	1,410,026
Loan Service Fees Receivable	0	319,916	319,916
Total Non-Current Assets	\$106,588,747	\$319,916	\$106,908,663
<b>TOTAL ASSETS</b>	<b>\$136,378,908</b>	<b>\$541,662</b>	<b>\$136,920,570</b>
<b>LIABILITIES</b>			
<u>Current Liabilities</u>			
Set Asides Payable	\$0	\$193,031	\$193,031
Loan Admin Payable	0	28,715	28,715
Total Current Liabilities	\$0	\$221,746	\$221,746
<b>TOTAL LIABILITIES</b>	<b>\$0</b>	<b>\$221,746</b>	<b>\$221,746</b>
<b>NET ASSETS</b>			
Unrestricted	\$136,378,908	\$319,916	\$136,698,824
<b>TOTAL NET ASSETS</b>	<b>\$136,378,908</b>	<b>\$319,916</b>	<b>\$136,698,824</b>

The accompanying notes are an integral part of these financial statements.



STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY  
 DRINKING WATER STATE REVOLVING FUND  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011

	LOAN ACTIVITIES	SET ASIDE PROGRAMS	TOTAL
OPERATING REVENUES			
Contributions from Federal Government	\$0	\$2,545,543	\$2,545,543
Loan Service Fee Revenue	0	319,916	319,916
Total Operating Revenues	\$0	\$2,865,459	\$2,865,459
OPERATING EXPENSES			
Program Administration			
Personnel	\$0	\$281,226	\$281,226
Operating	0	22,005	22,005
Travel	0	1,591	1,591
Indirect	0	106,097	106,097
Total Program Administration	\$0	\$410,919	\$410,919
Program Set Asides			
Personnel	\$0	\$1,097,919	\$1,097,919
Operating	0	616,665	616,665
Travel	0	8,080	8,080
Indirect	0	411,960	411,960
Total Program Set - Asides	\$0	\$2,134,624	\$2,134,624
Total Operating Expenses	\$0	\$2,545,543	\$2,545,543
Operating Income	\$0	\$319,916	\$319,916
NON-OPERATING REVENUES(EXPENSES)			
Contributions from Federal Government	\$19,699,724	\$0	\$19,699,724
Contributions from State	3,487,171	0	3,487,171
Interest Earned - Fund Balance	501,339	0	501,339
Interest Earned - Loans	2,061,273	0	2,061,273
Loan Forgiveness	(6,547,351)	0	(6,547,351)
Decrease in FMV of Investments	(1,821)	0	(1,821)
Total Non-Operating Revenues	\$19,200,335	\$0	\$19,200,335
Change in Net Assets	\$19,200,335	\$319,916	\$19,520,251
Net Assets - Beginning of Year (Restated)	\$117,178,573	\$0	\$117,178,573
Net Assets - End of Year	\$136,378,908	\$319,916	\$136,698,824

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER STATE REVOLVING FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

	LOAN ACTIVITIES	SET ASIDE PROGRAMS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Federal Government	\$0	\$2,477,935	\$2,477,935
Cash Disbursed - Admin. Expenses	0	(415,714)	(415,714)
Cash Disbursed - Other Program Expenses	0	(2,062,221)	(2,062,221)
Net Cash Provided by Operating Activities	\$0	\$0	\$0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Cash Received from Federal Government	\$19,699,724	\$0	\$19,699,724
Cash Received as State Match	1,553,813	0	1,553,813
Net Cash Provided by Non-Capital Financing Activities	\$21,253,537	\$0	\$21,253,537
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Received - Investment Interest	\$503,472	\$0	\$503,472
Cash Received - Loan Interest Payments	1,316,306	0	1,316,306
Cash Received - Loan Principal Repayments	2,613,582	0	2,613,582
Loan Disbursements	(23,801,594)	0	(23,801,594)
Purchase of Investments	(416,495)	0	(416,495)
Net Cash Used by Investing Activities	(\$19,784,729)	\$0	(\$19,784,729)
Net Increase in Cash	\$1,468,808	\$0	\$1,468,808
Cash Balance - Beginning of Year	9,581,691	0	9,581,691
Cash Balance - End of Year	\$11,050,499	\$0	\$11,050,499
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$0	\$319,916	\$319,916
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:			
Change in Loan Service Fees Receivable	\$0	(\$319,916)	(\$319,916)
Change in Due from Federal Government	0	(67,609)	(67,609)
Change in Administration Payable	0	72,404	72,404
Change in Program Set-Asides Payable	0	(4,795)	(4,795)
Total Adjustments	\$0	(\$319,916)	(\$319,916)
Net Cash Provided by Operating Activities	\$0	\$0	\$0

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization of the Fund

The Idaho Drinking Water State Revolving Fund (DWSRF) was established pursuant to the Federal Safe Drinking Water Act (the Act) Amendments of 1996 (Pub. L 104-182). The Act established the DWSRF to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with the Act requirements and to protect public health. Section 1452 of the Act authorizes the Administrator of the Environmental Protection Agency (EPA) to award capitalization grants to states, which in turn can provide low cost loans and other forms of assistance to eligible systems. The Act also established a strong emphasis on preventing contamination and enhancing water systems management by allowing States to use some of the Act funds for source water protection, capacity development, and operator certification.

The DWSRF is in the process of being capitalized by the U.S. Environmental Protection Agency through a series of grants beginning in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2011, Congress authorized the EPA to award \$123,257,500 in capitalization grants to Idaho. The State is required to contribute \$24,651,500 in matching funds. DWSRF loan repayments, including interest and principal, must be returned to the DWSRF. DWSRF money is to be used for eligible purposes in perpetuity. In accordance with the Act, the corpus of the federal and State capital contributions to the DWSRF will be maintained. All disbursements, repayments, contributions from federal and State sources, and related transactions are accounted for within the DWSRF.

The American Recovery and Reinvestment Act of 2009 provided the DWSRF with \$24,500,000 of additional funding with no required State match.

The DWSRF is administered by the Idaho Department of Environmental Quality (DEQ). The DWSRF does not have any full time employees. Instead, DEQ charges the DWSRF for time spent on DWSRF activities by DEQ employees, and the DWSRF reimburses the DEQ Fund for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the DWSRF based on direct salary costs. Employees charging time to the DWSRF are covered by the benefits of the State. The DWSRF is also charged indirect costs of the State through the cost allocation plan for general state expenses.

The financial statements are intended to present the financial position and results of the operations of the DWSRF, a component of the State of Idaho. These statements are not intended to present the financial position or results of operations for the Idaho Department of Environmental Quality, of which the DWSRF is a part.

### Basis of Accounting and Measurement Focus

Enterprise funds, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, are required to apply applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: *Statements and Interpretations of Financial Accounting Standards Board (FASB)*; *Accounting Principles Board Opinions*; and *Account Research Bulletins of the Committee on Accounting Procedures*. In addition, an enterprise activity

may apply all FASB statements and interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The DWSRF has elected not to follow FASB pronouncements issued after November 30, 1989.

The DWSRF presents its financial statements as an enterprise fund. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. The State's central accounting system records transactions on a cash basis of accounting. The financial records of the DWSRF have been converted as necessary to the accrual basis. The accrual basis of accounting requires recording revenues when earned and expenses when incurred. The fund accrues revenues and expenses at year-end based on activities recorded sixty (60) days subsequent to year-end.

#### Operating and Non-Operating Revenue and Expenses

Operating and non-operating revenue and expenses are presented separately on the operating statement. Operating revenue and expenses result from transactions associated with the administrative activity of the DWSRF, for example, administrative expenses and contributions from the EPA for administrative costs. All other transactions are reported as non-operating revenue, such as loan disbursements, collections, interest earned, and contributions from the EPA and the State for loan disbursements.

#### Cash

Pursuant to Idaho Code, all cash of the DWSRF is deposited with the Office of the State Treasurer. The State Treasurer is responsible for the investment of the cash balances of the State.

In accordance with the Safe Drinking Water Act and Idaho Code, all cash of the DWSRF is perpetually appropriated for program purposes.

#### Capital Assets

Capital assets are generally defined as land, land improvements, buildings, fixtures, equipment, and property under construction, and are recorded at cost. The DWSRF owns no land, land improvements, buildings, fixtures, or property under construction and has no plans to acquire any.

#### Loans Receivable and Interest Capitalization

Loan funds are disbursed to the local agencies as the agencies incur costs for the purposes of the loan and request loan disbursements from the DWSRF. Typically, interest is calculated from the date that funds are advanced. After final disbursement has been made, the repayment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. At the loan closing, the loan recipient is given the opportunity to pay off any accrued interest during the construction phase or to capitalize the interest into the loan principal, subject to the available debt capacity of the loan recipient as stated in the loan award.

Management considers all loans to be fully collectible; therefore, no allowance for uncollectible accounts is made.

#### Indirect Costs - Specific DWSRF Liabilities

Certain liabilities, such as Compensated absences, Pension plan obligations, and Commitments under non-capitalized (operating) leases are obligations of the Department of Environmental Quality and the DWSRF receives an allocation of these costs, either through direct expenses as incurred or through the application of a negotiated indirect rate.

For the year ended June 30, 2011, the DWSRF does not have separate specific liabilities for Compensated absences, Pension plan obligations, and Commitments under non-capitalized (operating) leases.

#### State Match

Under Idaho Code, the State match is perpetually appropriated from the Water Pollution Control Account. The State is only required to deposit a cash match into the DWSRF when an actual cash draw from the EPA is made.

### **NOTE 2 – CASH AND INVESTMENTS**

The DWSRF participates in two of the State Treasurer's investment pools. In accordance with Idaho Code, Sections 67-1210 and 67-1210A, the State Treasurer invests in various types of investments, including certificates of deposit, repurchase agreements, securities lending, and federal, State, and local government securities.

The Idle Fund is an involuntary investment pool managed by the State Treasurer's Office on behalf of participants. Money not needed to meet immediate operating obligations is invested in the Idle Fund, which is unrated. The DWSRF has total deposits of \$11,050,499 in the pool. Deposits are stated at cost, which approximates market.

The DWSRF also participates in the Diversified Bond Fund, an external investment pool. This pool is sponsored by the State Treasurer's Office under the authority of Idaho Code, Sections 67-1301 and 67-2328. As of June 30, 2011, the DWSRF investment in the Diversified Bond Fund had a fair value of \$14,657,600 with a weighted average maturity of 4.5 years. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In previous years, the fund had been reported at cost, which is lower than fair market value, therefore the beginning Net Assets – Beginning of Year balance has been restated to reflect an increase of \$698,477. A copy of the State's *Comprehensive Annual Financial Report (CAFR)*, including the investment pool's financial statements, is available from the Office of the State Controller.

The Department has not adopted a formal investment policy that addresses credit and interest rate risk to the Idle Fund and the DBF investments.

### **NOTE 3 - LOANS RECEIVABLE**

#### Extent, Nature, and Terms of Financial Instruments

The DWSRF makes loans to qualified agencies for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, State match, and revolving funds. The stated interest rate on loans ranges from 0% to 4% and loans are generally repaid over 20 years (30 years for some disadvantaged communities), starting within one year after the project is completed.

#### Collateral

At the loan closing, the State of Idaho receives collateral, typically a sewer revenue bond, local improvement district bond or promissory note, from the borrower. As of June 30, 2011, the Office of the State Treasurer held \$23,417,385 of promissory notes and \$23,520,271 of bonds as collateral for the DWSRF.

## Loans by Category

Completed projects are loans in the repayment phase. Projects in progress are in construction or the disbursement phase. Loans that have been paid in full are excluded. Loans receivable at June 30, 2011, are as follows:

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$59,856,865	\$13,574,331	\$0	\$46,282,534
Projects in Progress	<u>102,582,340</u>	<u>0</u>	<u>40,860,136</u>	<u>61,722,204</u>
Totals	<u>\$162,439,205</u>	<u>\$13,574,331</u>	<u>\$40,860,136</u>	\$108,004,738
Less: Amount Due Within 1 Year (Current)				<u>2,826,017</u>
Loans Receivable, Net of Current Maturities				<u>\$105,178,721</u>

The projected principal repayments in subsequent years are as follows:

Year Ending June 30	Amount
2012	\$2,826,017
2013	3,576,703
2014	4,508,852
2015	4,778,248
2016	4,896,324
Thereafter	<u>87,418,594</u>
Total Loans Receivable	<u>\$108,004,738</u>

## Major Loans to Idaho Agencies

As of June 30, 2011, the DWSRF had made loans to the agencies listed below that, in aggregate, exceeded \$6 million. The outstanding balance of these loans represents approximately 46% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Ammon	\$15,000,000	\$14,235,946
City of Fruitland	14,800,000	14,800,000
Central Shoshone County	12,137,000	10,737,558
City of Orofino	6,638,368	0
City of Salmon	6,460,500	5,922,125
City of Twin Falls	<u>6,400,000</u>	<u>4,133,223</u>
Totals	<u>\$61,435,868</u>	<u>\$49,828,852</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2011, principal repayments on completed projects by the above agencies was \$2,805,152 and remaining amounts to be disbursed on projects in progress was \$8,801,864.

#### NOTE 4 – INTEREST RECEIVABLE

The interest rate on loans ranges from 0% to 4% and loans are generally repaid over 20 years (30 years for some disadvantaged communities) starting within one year after the project is completed. Details of loan interest receivable as of June 30, 2011, are as follows:

##### Interest Receivable by Category

Completed Projects	\$267,706
Projects in Progress	<u>1,410,026</u>
Total Interest Receivable	<u>\$1,677,732</u>

#### NOTE 5 – CONTINGENCIES

The DWSRF is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to State employees while performing DWSRF business. The DWSRF maintains insurance (through the Idaho State Department of Administration, Bureau of Risk Management) for all risks of loss. The cost of insurance is included in the indirect costs charged to the DWSRF. There have not been any claims against the DWSRF since its inception in 1997.

#### NOTE 6 – EPA CAPITALIZATION GRANT AND STATE CONTRIBUTIONS

The capitalization grants authorized under Section 1452 of the Safe Drinking Water Act are generally divided between two purposes: part of each capitalization is deposited into the DWSRF for providing loans for drinking water infrastructure projects; the other part is to be deposited into a set-aside account for other programs and activities that do not receive assistance from the fund the following schedules are intended to allow the reader to view the separate parts and total usage of the EPA capitalization grant:

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>DWSRF Administration</b>					
1997	\$566,312	\$566,312	\$0	\$566,312	\$0
1998	284,852	284,852	0	284,852	0
1999	298,552	298,552	0	298,552	0
2000	310,280	310,280	0	310,280	0
2001	311,564	311,564	0	311,564	0
2002	322,100	322,100	0	322,100	0
2003	320,164	320,164	0	320,164	0
2004	332,124	332,124	0	332,124	0
2005	331,420	331,420	0	331,420	0
2006	330,752	330,752	0	330,752	0
2007	329,160	259,071	70,089	329,160	0
2008	325,840	0	325,840	325,840	0
2009	325,840	0	19,390	19,390	306,450
2010	<u>542,920</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>542,920</u>
Totals	<u>\$4,931,880</u>	<u>\$3,667,191</u>	<u>\$415,319</u>	<u>\$4,082,510</u>	<u>\$849,370</u>

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>Technical Assistance</b>					
1997	\$283,156	\$283,156	\$0	\$283,156	\$0
1998	78,584	78,584	0	78,584	0
2000	155,140	155,140	0	155,140	0
2001	155,782	155,782	0	155,782	0
2002	161,050	161,050	0	161,050	0
2003	160,082	160,082	0	160,082	0
2004	166,062	166,062	0	166,062	0
2005	165,710	165,710	0	165,710	0
2006	165,376	165,376	0	165,376	0
2007	164,580	164,580	0	164,580	0
2008	162,920	162,920	0	162,920	0
2009	162,920	0	162,920	162,920	0
2010	<u>271,460</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>271,460</u>
<b>Totals</b>	<b><u>\$2,252,822</u></b>	<b><u>\$1,818,442</u></b>	<b><u>\$162,920</u></b>	<b><u>\$1,981,362</u></b>	<b><u>\$271,460</u></b>

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>Assistance: Local 1997 = Source Water Assessment, 1998-2010 = Wellhead Protection</b>					
1997	\$1,415,780	\$1,415,780	\$0	\$1,415,780	\$0
1998	712,130	712,130	0	712,130	0
1999	746,380	746,380	0	746,380	0
2000	775,700	775,700	0	775,700	0
2001	778,910	778,910	0	778,910	0
2002	805,250	805,250	0	805,250	0
2003	800,410	800,410	0	800,410	0
2004	830,310	830,310	0	830,310	0
2005	828,550	828,550	0	828,550	0
2006	826,880	826,880	0	826,880	0
2007	822,900	822,900	0	822,900	0
2008	814,600	141,323	673,277	814,600	0
2009	814,600	0	234,715	234,715	579,885
2010	<u>1,357,300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,357,300</u>
<b>Totals</b>	<b><u>\$12,329,700</u></b>	<b><u>\$9,484,523</u></b>	<b><u>\$907,992</u></b>	<b><u>\$10,392,515</u></b>	<b><u>\$1,937,185</u></b>



<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>Operator Certification</b>					
<b>Totals</b>	<b><u>\$641,858</u></b>	<b><u>\$641,858</u></b>	<b><u>\$0</u></b>	<b><u>\$641,858</u></b>	<b><u>\$0</u></b>

The operator certification set-aside has been inactive since 2006.

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>PWSS: DWIMS - SDWIS (2006 Increase \$41,344 &amp; 2007 Increase \$41,145)</b>					
1999	\$671,742	\$671,742	\$0	\$671,742	\$0
2000	698,130	698,130	0	698,130	0
2001	701,019	701,019	0	701,019	0
2002	724,725	724,725	0	724,725	0
2003	800,410	800,410	0	800,410	0
2004	788,795	788,795	0	788,795	0
2005	787,122	787,122	0	787,122	0
2006	826,880	826,880	0	826,880	0
2007	822,900	822,900	0	822,900	0
2008	814,600	159,308	655,292	814,600	0
2009	814,600	0	135,596	135,596	679,004
2010	<u>1,061,564</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,061,564</u>
<b>Totals</b>	<b><u>\$9,512,487</u></b>	<b><u>\$6,981,031</u></b>	<b><u>\$790,888</u></b>	<b><u>\$7,771,919</u></b>	<b><u>\$1,740,568</u></b>

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>Capacity Development</b>					
2000	\$387,850	\$387,850	\$0	\$387,850	\$0
2001	389,455	389,455	0	389,455	0
2002	402,625	402,625	0	402,625	0
2003	400,205	400,205	0	400,205	0
2004	415,155	415,155	0	415,155	0
2005	414,275	414,275	0	414,275	0
2006	413,440	376,931	36,509	413,440	0
2007	411,450	0	159,583	159,583	251,867
2008	407,300	0	6,567	6,567	400,733
2009	407,300	0	0	0	407,300
2010	<u>678,650</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>678,650</u>
<b>Totals</b>	<b><u>\$4,727,705</u></b>	<b><u>\$2,786,496</u></b>	<b><u>\$202,659</u></b>	<b><u>\$2,989,155</u></b>	<b><u>\$1,738,550</u></b>

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>Total Set - Asides</b>					
1997	\$2,406,826	\$2,406,826	\$0	\$2,406,826	\$0
1998	1,182,279	1,182,279	0	1,182,279	0
1999	1,791,312	1,791,312	0	1,791,312	0
2000	2,404,670	2,404,670	0	2,404,670	0
2001	2,414,621	2,414,621	0	2,414,621	0
2002	2,496,275	2,496,275	0	2,496,275	0
2003	2,481,271	2,481,271	0	2,481,271	0
2004	2,573,961	2,573,961	0	2,573,961	0
2005	2,568,505	2,568,505	0	2,568,505	0
2006	2,563,328	2,526,819	36,509	2,563,328	0
2007	2,550,990	2,069,451	229,672	2,299,123	251,867
2008	2,525,260	463,551	1,660,976	2,124,527	400,733
2009	2,525,260	0	552,621	552,621	1,972,639
2010	<u>3,911,894</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,911,894</u>
<b>Totals</b>	<b><u>\$34,396,452</u></b>	<b><u>\$25,379,541</u></b>	<b><u>\$2,479,778</u></b>	<b><u>\$27,859,319</u></b>	<b><u>\$6,537,133</u></b>

<u>Year</u>	<u>Grant Amount</u>	<u>Total Draws June 30, 2010</u>	<u>Draws During SFY 2011</u>	<u>Total Draws June 30, 2011</u>	<u>Balance at June 30, 2011</u>
<b>DWSRF Loans</b>					
1997	\$11,750,974	\$11,750,974	\$0	\$11,750,974	\$0
1998	5,939,021	5,939,021	0	5,939,021	0
1999	5,672,488	5,672,488	0	5,672,488	0
2000	5,352,330	5,352,330	0	5,352,330	0
2001	5,374,479	5,374,479	0	5,374,479	0
2002	5,556,225	5,556,225	0	5,556,225	0
2003	5,522,829	5,522,829	0	5,522,829	0
2004	5,729,139	5,729,139	0	5,729,139	0
2005	5,716,995	5,716,995	0	5,716,995	0
2006	5,665,972	5,665,972	0	5,665,972	0
2007	5,678,010	5,678,010	0	5,678,010	0
2008	5,620,740	5,620,740	0	5,620,740	0
2009	5,620,740	5,620,740	0	5,620,740	0
2010	<u>9,661,106</u>	<u>0</u>	<u>5,360,653</u>	<u>5,360,653</u>	<u>4,300,453</u>
<b>Totals</b>	<b><u>\$88,861,048</u></b>	<b><u>\$79,199,942</u></b>	<b><u>\$5,360,653</u></b>	<b><u>\$84,560,595</u></b>	<b><u>\$4,300,453</u></b>

Year	Grant Amount	Total Draws June 30, 2010	Draws During SFY 2011	Total Draws June 30, 2011	Balance at June 30, 2011
<b>Total DWSRF Capitalization Grant</b>					
1997	\$14,157,800	\$14,157,800	\$0	\$14,157,800	\$0
1998	7,121,300	7,121,300	0	7,121,300	0
1999	7,463,800	7,463,800	0	7,463,800	0
2000	7,757,000	7,757,000	0	7,757,000	0
2001	7,789,100	7,789,100	0	7,789,100	0
2002	8,052,500	8,052,500	0	8,052,500	0
2003	8,004,100	8,004,100	0	8,004,100	0
2004	8,303,100	8,303,100	0	8,303,100	0
2005	8,285,500	8,285,500	0	8,285,500	0
2006	8,229,300	8,192,791	36,509	8,229,300	0
2007	8,229,000	7,747,461	229,672	7,977,133	251,867
2008	8,146,000	6,084,291	1,660,976	7,745,267	400,733
2009	8,146,000	5,620,740	552,621	6,173,361	1,972,639
2010	<u>13,573,000</u>	<u>0</u>	<u>5,360,653</u>	<u>5,360,653</u>	<u>8,212,347</u>
<b>Totals</b>	<b><u>\$123,257,500</u></b>	<b><u>\$104,579,483</u></b>	<b><u>\$7,840,431</u></b>	<b><u>\$112,419,914</u></b>	<b><u>\$10,837,586</u></b>

As of June 30, 2010 and 2011, the State match contributions were:

	Committed State Match	Total Match Provided June 30, 2010	State Match Provided in SFY 2011	Total Match Provided June 30, 2011	Available State Match Balance June 30, 2011
Idaho	\$24,651,500	\$21,936,900	\$1,553,813	\$23,490,713	\$1,160,787

#### NOTE 7 – AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

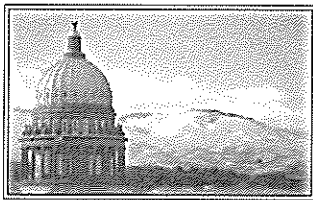
The American Recovery and Reinvestment Act of 2009 (ARRA) will provide the Idaho DWSRF with up to \$24,500,000 of federal funds, with no required State match. The ARRA funds will come from the following: \$19,500,000 from the U.S. EPA and \$5,000,000 from the U.S. Department of Education.

The EPA ARRA funds came with numerous requirements including:

- 1) The projects selected were to be "shovel ready" and under contract by February 17, 2010.
- 2) Additional subsidization of projects in the amount of at least 50% of the ARRA grant. Idaho has chosen to provide principal forgiveness to meet this requirement.
- 3) Not less than 20% of the ARRA grant was to go to Green Project Reserve, defined as green infrastructure, water or energy efficiency improvements or other environmentally innovative activities.

Additional information regarding the American Recovery and Reinvestment Act can be found at the [http://www.deq.idaho.gov/water/arra/arra\\_water\\_projects.cfm](http://www.deq.idaho.gov/water/arra/arra_water_projects.cfm) and <http://www.recovery.gov/> websites.

Loan disbursements to qualified projects for incurred costs are necessary to collect these funds. As of June 30, 2011, \$19,091,851 (97.9% of available funds) of EPA ARRA and \$5,000,000 (100.0%) of US Education ARRA loan disbursements have been made.



# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

Jeff Youtz  
Director

March 7, 2012

Independent Auditor's Report on Internal Control over  
Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

Curt Fransen, Director  
Idaho Department of Environmental Quality  
Statehouse Mail

Dear Mr. Fransen:

We have audited the financial statements of the Idaho Department of Environmental Quality, Drinking Water State Revolving Fund's (DWSRF) as of and for the year ended June 30, 2011, and have issued our report thereon dated March 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the DWSRF's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Mike Nugent, Manager  
Research & Legislation

Cathy Holland-Smith, Manager  
Budget & Policy Analysis

18 Don H. Berg, Manager  
Legislative Audits

Glenn Harris, Manager  
Information Technology

Statehouse, P.O. Box 83720  
Boise, Idaho 83720-0054

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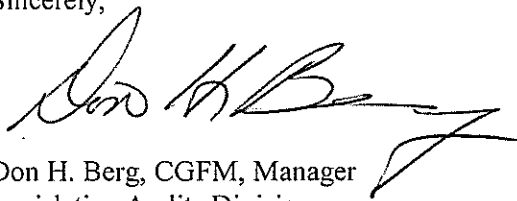
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DWSRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality and the Idaho Legislature and is not intended to be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a long horizontal flourish extending to the right.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

## AGENCY RESPONSE

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STATE OF IDAHO  
DEPARTMENT OF  
ENVIRONMENTAL QUALITY

1410 North Hilton • Boise, Idaho 83706 • (208) 373-0502

C.L. "Butch" Otter, Governor  
Toni Hardesty, Director

March 7, 2012

Mr. Don Berg, Manager  
Legislative Audits  
Legislative Services Office  
P O Box 83720  
Boise, Idaho 83720-0054

Re: Audit Report – 2011 Drinking Water Revolving Fund

Dear Mr. Berg:

The Department of Environmental Quality accepts the audit report.

If you or your staff have any further questions, please contact Dave Sande, CPA, Financial Officer.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Fransen", is written over a horizontal line.

Curt A. Fransen  
Director

cc: Dave Sande, DEQ-Fiscal Office



# APPENDIX

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## HISTORY AND STATUTORY AUTHORITY

The Idaho Drinking Water State Revolving Fund (DWSRF) was established pursuant to the Federal Safe Drinking Water Act of 1996. The DWSRF has been capitalized by a series of grants from the U.S. Environmental Protection Agency beginning in 1997.

## PURPOSE

The Act established the DWSRF to assist public water systems with financing the costs of the infrastructure needed to achieve or maintain compliance with Act requirements and to protect public health. Section 1452 of the Act authorizes the administrator of the EPA to award capitalization grants to states, which in turn can provide low-cost loans and other forms of assistance to eligible systems. The Act also establishes a strong emphasis on preventing contamination and enhancing water system management by allowing states to use some of the funds for source water protection, capacity development, and operator certification. These other activities are known as grant "set-asides." All DWSRF loan repayments, including interest and principal, must be returned to the DWSRF. DWSRF resources are to be used for eligible purposes in perpetuity. In accordance with the Act, the corpus of the federal and State capital contributions to the DWSRF will be maintained. All DWSRF loan disbursement, repayment, deposit of EPA contribution, deposit of State match, and related transactions are accounted for separately in the DWSRF.

## ORGANIZATION AND STAFFING

The DWSRF is administered by the Idaho Department of Environmental Quality (DEQ). The DWSRF has no full-time employees, but instead uses DEQ employees on a part-time basis. The part-time positions include the DWSRF's loan program manager, senior accountant, lead loan officer, water quality analyst, six regional managers, and several staff and technical engineers.

Department of Environmental Quality  
Director's Office

